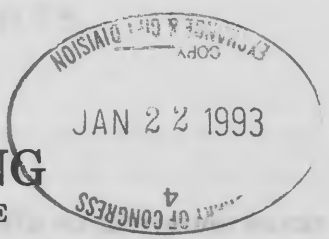
H.R. 4803, THE NON-PROLIFERATION OF WEAPONS OF MASS DESTRUCTION AND REGULATORY IMPROVEMENT ACT OF 1992



HEARING

BEFORE THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

SECOND SESSION

MAY 8, 1992

Printed for the use of the Committee on Banking, Finance and Urban Affairs

Serial No. 102–121

U.S. GOVERNMENT PRINTING OFFICE

55–239 WASHINGTON : 1992

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-039830-4

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Friday, May 8, 1992

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H.R. 4803, THE NON-PROLIFERATION OF WEAPONS OF MASS DESTRUCTION AND REGULATORY IMPROVEMENT ACT OF 1992

FRIDAY, MAY 8, 1992

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 9:40 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the committee] presiding.

Present: Chairman Gonzalez, Representatives Kennedy, Moran, Slattery, Bereuter, Riggs, and Sanders.

The CHAIRMAN. The committee will please come to order. Several members of the committee are on their way, and so we will try to get the preliminaries out of the way, which is generally the opening introductory statement.

The hearing today is to address the issue involving the very serious and, in fact, alarming spread of nuclear and other weapons of mass destruction. This hearing will focus on the legislation that we have introduced, H.R. 4803. We call it the Non-Proliferation of Weapons of Mass Destruction and Regulatory Improvement Act of 1992.

This legislation promotes the nonproliferation of the technology needed to produce the weapons of mass destruction by denying funding to the International Monetary Fund, the World Bank, its affiliates, and the multilateral development institutions until such institutions revoke the membership of countries not adhering to appropriate nonproliferation regimes.

This legislation further prohibits the Export-Import Bank from providing financial assistance to countries that are not adhering to regimes for controlling weapons of mass destruction.

In addition, the bill implements regulatory reforms involving banks that are controlled by foreign governments. H.R. 4803 authorizes the appropriate Federal regulator, subject to a hearing, to revoke the charter of federally insured depository institutions if an institution and two or more officers or directors are convicted of arms and export control offenses.

This committee's investigation into the BNL-Iraqi relationships have uncovered, among other things, an illicit procurement network whereby the Iraqi Government was able to utilize United States credit programs, such as the Agriculture's Commodity Credit Corporation Program, to the tune of $5 billion over a 5-year period, and the Export-Import Bank, which loaned approximately

$200 million, and the United States banking and international financial markets, thereby diverting its precious hard currency to build a massive war machine that included all aspects of weapons of mass destruction. Ironically and incredibly, our own government allowed itself to help finance terror weapons that easily could have been used against our own soldiers.

In addition, the Iraqi Government was able to obtain conventional weapons and the technology and know-how necessary to produce its own weapons by procuring so-called dual-use technology and materials from the United States and our European neighbors, including the former Soviet Union as well as Argentina, China, and North Korea. In fact, recent press reports have documented that the United States turned a blind eye to covert third-party transfers of United States originated military weapons to Iraq, Iran, and Syria.

By way of background, the record should show that the IMF and the World Bank were created following the 1944 economic conference at Bretton Woods. To be eligible to join the World Bank, a country must first join the IMF. The IMF emphasizes balance of payments stability while the World Bank promotes economic growth and development, supposedly.

Let me say that this committee has jurisdiction on every one of these finance or bank or international institutions. The United States belongs to five multilateral development banks: World Bank and four regional banks—Africa, Asia, Europe, Latin America. The United States is the largest stockholder in all but one, and that is the African Development Bank. As I remember, when I chaired the Subcommittee on International Finance, as I did for 10 years, the African Bank did not allow any but African countries to belong. So they did provide the African Development Bank, which the United States, I think, finally, eventually, after Canada, apportioned some monies.

And, of course, as a principal stockholder, the United States has considerable influence. The United States did take the leadership at that time in history in initiating what has turned out to be these international or multilateral institutions.

Historically, the IMF and the World Bank have been used by the United States to advance our long-term foreign policy objectives, promote economic development, and influence economic trends in the developing world. While the goal of the World Bank has been the alleviation of poverty, the trend of the multilaterals in recent years has been an increased emphasis on debt questions, from the middle 1980's or late 1980's, the Baker and then later the Brady plan, and economic reform. The MDBs have more recently incorporated environmental considerations into their loan approval process.

As I see it, these agencies must recognize that if their client governments are wasting their resources on weaponry, their purposes are being frustrated. In other words, the MDBs cannot be blind to the weapons problem any more than they can ignore the environment.

Last October at their annual meeting in Bangkok, the heads of the IMF and World Bank hinted that their institutions may withhold loans from countries that devote too much of their national

budgets to weapons purchases by announcing that their institutions would begin pressing borrowers to curb defense spending.

Mr. Lewis T. Preston, the new President of the World Bank, went on to state, and I am going to quote, "It is the sovereign right of nations to decide how much to spend on arms, . . . but if we found a situation where defense expenditure was 35 to 40 percent of the government budget, we might wonder if it was an appropriate use for World Bank funds."

While these initiatives go in the right direction, they certainly don't go far enough. H.R. 4803 is a start, and the purpose of the hearing today is to obtain the insight of our witnesses.

I look forward to their testimony and express the gratitude of the committee in their response to our invitation.

I don't know if any of the members present thus far wish to have opening statements. I will recognize them briefly. If not, we will go on ahead to the witnesses. If such is the desire, or if at this point they are not prepared, we can submit for the record some prepared initial statements.

But Mr. Kennedy, do you have any?

[The prepared statement of Mr. Gonzalez can be found in the appendix.]

Mr. KENNEDY. Yes, Mr. Chairman. I will be very brief.

I want to first of all congratulate you for the work that you have done. I think perhaps the leadership that you have shown on this issue and the forthrightness and steadfastness with which you have pursued this issue should go down in the annals of the Congress as standing out and extending up for the American people. It makes me proud to be on this committee with you and proud to serve with you in the Congress of the United States.

The fact is that you and you alone have really uncovered the issues that pertain to the provision of weapons to Iraq right up until the invasion of Kuwait and expose the fact that the United States was funding in a back-door fashion the military buildup of one of the most brutal dictators of our time.

It seems to me what you are attempting to do with your legislation is to permanently end the capability of this ever occurring again, and to stop the U.S. banks, the World Bank, the IMF, and other international institutions from having the capacity to ever get into this type of lending and really subterfuge that which was put forth on not only the American people but people throughout the world.

I wanted to mention briefly, Mr. Chairman, as you are aware, I have also authored legislation that would prevent loans from the IMF, in particular under the Reauthorization Program, from going toward nations that are extending their military presence and the size of their military budgets beyond a reasonable point. I actually worked with Mr. Bereuter and other members on the International Development Institution Committee trying to work out some language that would be acceptable to both sides of the aisle.

As you are aware, one of the real dilemmas that we face in pursuing legislation like that is the fact that our own country often spends huge and vast sums of money pursuing a military policy as well. And so you find funny enemies in pursuing this type of legislation.

But again, Mr. Chairman, I just want to let you know how appreciative I am of the work you have done. Often ridicule is attendant on individuals that continuously speak out on an issue that isn't popular for a long period of time. But in the end, I think you have demonstrated what that kind of steadfast and dedicated public service is all about. And the day is not over.

Mr. Chairman, congratulations.

The CHAIRMAN. Well, thank you very much, Mr. Kennedy, for your most generous remarks. There have been occasions, and the record shall show it, that I have been joined in that very lonely place at the foot of the cross by the likes of Mr. Kennedy on such things as——

Mr. KENNEDY. Let's not get carried away here, Mr. Chairman.

The CHAIRMAN. Community reinvestment. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman. Thank you for convening the morning's hearing and allowing the members of the committee to comment on your legislation as well as to hear from the witnesses. If H.R. 4803 were enacted into law, the United States could no longer provide funds to international lending institutions.

For example, the World Bank, the IMF, the African Development Bank, and the Asian Development Bank, if the Secretary of the Treasury determines that a single member country of that multilateral institution is: One, capable of producing and seeking to produce weapons of mass destruction, that would be nuclear, biological; and two, not adhering to its commitments with respect to nonproliferation treaties.

I do understand that this bill is the chairman's response to information the committee's leadership has received through subpoena about Iraq's alleged manipulation of United States and international financial institutions to support its efforts to build nuclear, chemical, and biological weapons. I do have a number of important concerns about the legislation, and fear that it would create more problems than solutions by its broad sweep.

I understand that it is an effort to address Iraq's abusive and fraudulent actions that have been alleged, but it affects a host of other countries, including the United States, which would be penalized, I believe, if the measure becomes law.

According to analysis by the Congressional Research Service, the bill is certain to have a negative effect on the economic development of the newly independent nations of the former Soviet Union. At a time when foreign resources are scarce, international lending institutions have effectively leveraged existing capital and made those additional funds available to existing and new member countries.

Under the bill, this would no longer be possible. In addition to the impact on international lending institutions and member countries, the bill would virtually prohibit any government-owned foreign bank activity in the United States. This is expected to affect 80 banks from 35 countries by virtue of the fact that they fall into the Federal Reserve's definition of ownership, which can be as low as 5 percent or to as high as 20 percent ownership of that institution.

It is our understanding that institutions from Israel, Spain, France, Italy, and Germany would be affected the most. They are the most often listed in that list of 80.

It also penalizes U.S. exporters by prohibiting them from participating in Export-Import Bank programs. By restricting foreign bank activity, we can only expect retaliation by European countries, thereby undermining hard-fought successes in establishing a fair market for U.S. financial institutions operating in European markets.

As a member of this committee who also served as a member of the Intelligence Committee, I would also like to comment on the disclosure of classified information received by this committee with respect to Iraq's financial activities in the United States. I know the intelligence community as well as other executive agencies are deeply concerned about the nature of this information, and the way it was released.

It certainly can have an effect upon the response to future requests for information by this committee and other congressional offices and committees. I understand there is a need to know. There is a need to handle the information carefully.

Mr. Chairman, I look forward to the testimony about to be given by the witnesses, and I also take this opportunity to welcome Director Gates in his first appearance before the Banking Committee; Mr. Oehler, and other members of your staff and your top management people, Director Gates.

Thank you very much, Mr. Chairman.

The CHAIRMAN. If the gentleman would yield to me, since he referred to his membership on the so-called Intelligence Committee, that is an oxymoron in itself, but in any event, let me disabuse the gentleman's mind about any disclosure of confidential or security information that this committee has received in an improper fashion. Such has not been the case.

I have had nobody complain to me other than a letter received by a low echelon Treasury liaison official who really was referring to some kind of an inner staff understanding, which none existed. So that was responded to by the staff director of the committee.

What we placed in the record were documents that were dated, had nothing to do with any current activities whatsoever, because none were asked for. We have not received some because the Treasury Department has intervened with executive privilege. We had some resistance from the Federal Reserve Board, some of it despite the subpoenas issued; or documents by this committee have not been supplied. Most have.

Some of those they denied we obtained from other sources, extra—international sources, if you will. So there is nothing here having to do with such matters as are privy and within the rather confidential and secret recesses such as may be received by the Intelligence Committee. I just want to disabuse my comrade's concern.

Mr. BEREUTER. May I respond, Mr. Chairman?

The CHAIRMAN. Certainly.

Mr. BEREUTER. Thank you, Mr. Chairman.

I have always had a good working relationship with the chairman. As far as I am concerned, I expect to continue that relation-

ship. I do take exception to his comments, perhaps not meant the way they sounded, that the Intelligence Committee is itself an oxymoron.

Those of us appointed to it by the Speaker and the majority leader and the minority leader and these two select committees of the House and Senate take our responsibilities very seriously, and we pursue those to the best of our ability.

As you know, in the case of the House Members, we serve only a maximum of 6 years so we do not become co-opted or in any way unduly influenced by the Intelligence Committee for which we exercise the oversight and authorize the responsibilities.

So I happen to be very proud to serve on the Intelligence Committee. And I look forward to continuing to serve there for another term if I am reelected.

Thank you, Mr. Chairman.

The CHAIRMAN. I appreciate that. I think the gentleman ought to be proud if he has been chosen to belong to that committee. And what I am saying still stands, and that is that if at any time the Intelligence Committee or any of its officials, chairman, or whoever, had any kind of a complaint as to our divulging anything that properly would have been within the jurisdiction, I haven't heard from them. I just wanted to lay rest the insinuation that was clearly implied in your original statement.

Mr. BEREUTER. Mr. Chairman, I was not speaking for the Intelligence Committee. I was speaking of the intelligence community.

The CHAIRMAN. Well, the same applies to them. I haven't heard from them.

Mr. SANDERS. Mr. Chairman?

First of all, let me echo Mr. Kennedy's remarks. In fact, all over this country there are millions of people who are grateful for your independence and your stubbornness and your willingness to stand alone and inform the American people about the origins of the Persian Gulf war and the United States Government's relationship with Iraq during the preceding period. I want to join Mr. Kennedy in congratulating you.

I think also the essence of what your bill is about is extraordinarily important. We understand that as we speak today, not only are there some 5 million children in our own country who are hungry, but there are some 30 million children in the Third World today who are starving to death.

And it does not make a lot of sense to me that the world is spending hundreds and hundreds of billions of dollars on military weapons and weapons of destruction at a time when the children throughout the world are hungry, and especially since the end of the cold war, it makes that reality much less necessary.

So I think any effort that this committee can undertake to lessen military spending in the world and especially in the Third World is something that will help the children and people from one end of this planet to the other.

Last, Mr. Chairman, as you know better than I do, the Persian Gulf war itself resulted in the deaths of several hundred thousand Iraqis. I don't know that we have an official tally, but we know many children died in that war and many of the children there are still dying today.

And we know scores of American soldiers were killed, others were wounded, thousands of families were disrupted in order to participate in that war. We know the environmental damage in that war was extraordinary, and we know the cost of that war, no matter who picks up the tab, was very, very high, tens and tens of billions of dollars.

Therefore, Mr. Chairman, I think it is absolutely appropriate for this committee and the Congress to fully understand the role that the U.S. Government, especially the Reagan and Bush administrations, played in the years before the war broke out in January 1991.

Specifically, I think we should be interested in knowing if actions on the part of the Reagan and Bush administrations made Saddam Hussein believe that the United States would not be opposed to Iraq's invasion of Kuwait in August 1990.

And I think much of the information that we have been hearing in the last weeks, the *Los Angeles Times*, the newspapers have done a very good job. We hope Mr. Gates and Mr. Oehler will help us in that pursuit, to tell us exactly what the relationship was between the administration, the CIA, and Iraq so that we can learn what happened, and so we can pass legislation to make sure that it doesn't happen again.

And once again, Mr. Chairman, congratulations on your efforts.

The CHAIRMAN. Thank you very much.

The CHAIRMAN. Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman. I share the feeling of appreciation of some Members of the Congress who will do what they feel is right regardless of the public perception. You did the same thing with the House Bank subpoenas because you wanted to protect the integrity of the institution.

And night after night, or afternoon after afternoon, you have stood there by yourself detailing what you considered to be a major scandal, which may in fact be eventually recognized as a scandal at least of the proportions of the Iran-Contra scandal, the arms for hostage deal with Iran, and some of the other things that we and the American public find inexplicable.

I think the people that are probably most distressed about these things are people like the witnesses we are going to hear from today, Mr. Gates, and the professionals within the intelligence community, who find the stated foreign policy objectives of the United States subverted, oftentimes by unilateral realpolitik decisionmaking by a handful of people who think they can get away with things that certainly when exposed to the light of day would never have been accepted by the Congress or the American public.

I remember a debate about 5 days before Iraq invaded Kuwait. The administration was pushing for another $500 million of credits from the Agriculture Department on top of about $4 billion that had already been given the nation of Iraq, and some Members of Congress were objecting. In fact, there was a Glickman amendment to deny that $500 million.

And in the debate it was stated that the bank that the money is going through is under very serious investigation for corruption, for kickbacks, for enabling Iraq to use money that was meant for

rice and turning it into machinery and the kinds of parts that would be used to build up military capacity on the part of Iraq.

They cited the fact that there were 30,000 Iraqi troops on the border with Kuwait the very night of the debate, and that Iraq was guilty of genocide with chemicals and poisonous gases against its own people, particularly the Kurds, that this was a regime that couldn't be more juxtaposed to the kind of regime we want to be helping, and yet there was this National Security Council directive from the President directing Federal agencies to enhance their relationships with Iraq, to provide whatever assistance could be provided.

That is the kind of realpolitik type of approaches to foreign policy that can no longer be tolerated, and I am anxious to hear from Mr. Gates on his perspective. He was not directly involved, as we know, he was just appointed director of the Central Intelligence Agency.

I am not sure that the Treasury Department is the right place to house the kind of accountability mechanism that you have in your legislation, but I am anxious to hear the testimony from the people who would have some responsibility for that, and to get to the bottom of what you have been detailing, putting much of your time with very little thanks into making this available for the American people through the *Congressional Record.*

We are now going to get it into public testimony. I think they are going to be exciting hearings that you have scheduled. And I trust that we will look at ways to prevent this situation from happening again in a dispassionate objective manner by listening to the provisionals involved and by trying to take advantage of the people that I know feel equal distress with you over what apparently has happened that led to the situation where thousands, hundreds of thousands, really, of American lives were jeopardized, placed in the line of fire from military weapons that might well have been provided ultimately by the United States.

So thank you, Mr. Chairman, for having the hearings, and I look forward to participating in them.

The CHAIRMAN. Thank you, Mr. Moran.

Mr. Slattery.

Mr. SLATTERY. Thank you, Mr. Chairman.

I, too, would join my colleagues in commending you for your interest in pursuing the truth with respect to what this government was doing prior to the Persian Gulf war. And as I reflect back on this time and back over the last few years, I can't help but conclude that indeed this administration's decisions with regard to the Persian Gulf and our relations with Iraq and Iran and the ultimate decision to engage this Nation in a war in that part of the world is clearly the most important decision that this administration has made.

I happen to believe, and believe very strongly, in one simple concept in government, and that is accountability. If we don't have access to information that enables the people of this great democracy to make decisions about whether their officials made good decisions on their behalf or not, our democracy does not work. And to have that information, we have to open up the files, so to speak. And I am very concerned when I hear discussions about the cloak

of national security being used to cloak colossal political blunders. And that is what we see here, my friends.

We are talking about the cloak of national security, and the cloak of executive privilege, being used to hide political blunders of enormous proportions. I believe very strongly that the American people have a fundamental right to know who in this administration decided and pushed the Congress, in effect, to approve the loan guarantees that my friend from Virginia just referred to.

I remember that night on the floor of the House when the Glickman amendment was under consideration. And the administration was urging us to extend more credit to Iraq. I voted for the Glickman amendment and I am darned glad I did.

And I think that it is very important for us to know who in this administration made the decisions that we were going to extend credit to Iraq in light of the enormous information that we had chronicling the atrocities this government had perpetrated on its own people. We had a full knowledge of their intent.

Who in this administration was responsible? Was it the Director of the Central Intelligence Agency? Was it the Secretary of Defense? Was it the President of the United States? Who was making these decisions? And any suggestion that the people of this country don't have a right to know this information is an outrage, as far as this Member is concerned.

And after all, we are in a situation now where this administration goes to the American people and says, elect us again, elect our team to the highest office in the land. And for the American people to make that decision as to whether this team is really worthy of their support for 4 more years, I believe that the American people have a right to know what role the team was playing.

What was Secretary of Commerce Mosbacher doing in all this? Was the Secretary of Commerce really trying to move high-tech equipment to Iraq in the face of information from the CIA indicating that perhaps it was being used for military purposes? Yes or no?

I don't think the American people have answers to these questions. Did the Director of the CIA tell the President, you shouldn't do this, or not? What happened here? And I think the American public has a right to know some of these answers.

So, Mr. Chairman, I really appreciate what you are attempting to do, and I have appreciated your effort to discuss this openly and to find some answers to these basic questions. I think it is one of the central issues in this election, that has not yet been fully developed. The people have a right to know.

And if they don't have access to information in a democracy, their decisionmaking process becomes meaningless, and there are a lot of people in this town today that are consumed by the desire to preserve their power. And I understand that.

And oftentimes arguments like executive privilege, separation of powers, and the cloak of national security are invoked to protect the establishment from colossal political blunders. And I happen to believe that colossal political blunders were made prior to the Persian Gulf war, that many in this government don't want the American people to learn about for a few more years, at least until after November.

And I think the American public has a fundamental right to know. And I also happen to believe that the issue of nonproliferation and how we can thoughtfully and in a sensible way prevent the spread of nuclear weapons in the 1990's is one of the central issues of our time. And I think that the Intelligence Committee, this committee, the Armed Services Committee, the Foreign Affairs Committee, and most importantly the administration, have got to be as creative as they can possibly be in dealing with this problem.

And it seems to me that the American people would be outraged if they thought that their loan guarantees and loans that they were extending to foreign governments were being used to purchase weapons of mass destruction. And that is what this legislation is attempting to address. And I commend you again, Mr. Chairman, for your effort in developing this legislation. And I am anxious to hear the testimony today.

I hope that others in the Congress will follow your lead in seeking to find the truth as to how this Nation got involved in the Persian Gulf war, and more specifically, who in this administration made the decisions that led us to a point where we had to engage in a war to protect our Nation's interest.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, sir. I have asked the staff to give each member a letter I thought had been sent to you some time ago but apparently it wasn't, and that is a letter that I addressed to the Director, Mr. Gates, and to which he has responded, because it sets forth specifics in which we have asked the Director to testify and help us with. And some of the peripheral or corollary issues are to be discussed at later hearings, some of which we have already notified you about, and with other witnesses that are more pertinent to answering some of the questions you have raised, Mr. Slattery.

Mr. Director, thank you very much for your ready and prompt reply to our invitation of March 26. And I ask general leave to place in the record at this point the letter in which we outlined the specifics that we were asking the Director to discuss with us today.

[The letter referred to can be found in the appendix.]

I also wanted to thank you for your prepared statement which we received in ample time to study and read. And if there are no objections, it will be in the record as given to us intact, and you may proceed as your judgment deems best. You may wish to summarize it, you may wish to read it. But thank you again.

STATEMENT OF ROBERT GATES, DIRECTOR, CENTRAL INTELLIGENCE AGENCY; ACCOMPANIED BY GORDON OEHLER, DIRECTOR OF THE NON-PROLIFERATION CENTER, CENTRAL INTELLIGENCE AGENCY

Mr. GATES. Thank you, Mr. Chairman. I think this is the first time ever for a Director of Central Intelligence to appear before the Banking Committee. And I am pleased to be here today to talk about the proliferation problem. I think it is a problem of such magnitude, as several of the members of the committee have indicated, that in the interests of perhaps getting some of that informa-

tion before the public, with your permission, I will go ahead and go through the statement.

Thirty years ago, President Kennedy faced a grave threat when his intelligence officers discovered that the Soviet Union had placed nuclear capable missiles in Cuba. As the President prepared to confront the Soviet challenge, he sent envoys to our European allies to explain the situation and his intentions.

In London, Prime Minister Macmillan told Ambassador Bruce and the Envoy, Dean Acheson, that Europeans had grown accustomed to living near Soviet nuclear-tipped missiles, and the Americans ought to get used to them, too.

President Kennedy didn't buy that advice, and in the 30 years since, we have stood on that famous brink, he and six other Presidents have sought to, in one way or another, limit the danger and spread of the weapons of mass destruction.

In 1962, only three countries had weapons of mass destruction and the means to deliver them. Today, the Soviet Union is itself 15 countries, and 4 of them have nuclear weapons on their territory. Now more than 20 countries have or are suspected of having or are developing nuclear, chemical, biological weapons, and the means to deliver them.

I want to be clear that only missiles and bombers located in China and the former Soviet Union have the capability directly to threaten the United States with massive destruction, and we don't expect any other country to acquire the capability directly to threaten our territory militarily for at least the next 10 years.

Nonetheless, special weapons located in the Middle East, South Asia, and the Pacific menace our friends and our forces stationed abroad. These weapons also fuel suspicions and arms race, and they make regional disputes more dangerous and difficult to resolve. Because of the potential global consequences of their use, they also threaten to involve us in disputes that otherwise would not be ours.

There are several reasons for the spread of weapons of mass destruction. First, by U.S. standards, the technologies used to make many of them are relatively old. They are more available and more easily absorbed by Third World countries than ever before. Nuclear weapons and missile technologies date back to the 1940's. Biological and chemical weapons technologies are even older, and they are easier and cheaper to develop.

Second, most of the technology used to make special weapons have legitimate civilian applications. As a result, trade in them is widespread and difficult to restrict.

For example, chemicals used to make plastics and processed foodstuffs can be used to make nerve agents. A modern pharmaceutical industry could produce biological warfare agents as easily as vaccines and antibiotics. And much of the technology used for space launches can be applied to ballistic missile programs.

And finally, greed plays a big role. The sizable profits that can be made in the transfer of weapons and sensitive technologies are just too great for some companies or countries to pass up.

The proliferation challenge was already complicated before the Soviet Union ceased to exist. The USSR's collapse not only threatened the stability of Moscow's centralized nuclear command and

control system, but it has threatened to unleash technologies, materials, and personnel that previously had been carefully controlled.

The multiple internal crises in the former Soviet Republics are all occurring while the remnants of the Union still own about 30,000 nuclear weapons. Four months since the Union figuratively shut its doors, we are still looking to see how Russia and the other republics sort out the ownership of nuclear weapons and what procedures they establish to maintain, control, and dismantle them.

Russian and other republic leaders are committed to destroying much of their nuclear stockpile, but even under the best of circumstances, it will take more than 10 years to do so. And as long as nuclear stockpiles exist under troubled political conditions, they present a tempting target for leaders who are or might become desperate for nuclear weapons.

We have seen the press reports that Soviet nuclear weapons have already been offered on the black market. Thus far, we have no independent corroboration that any of these stories are true, and all that we have been able to check have turned out to be false.

We also can expect to see former Soviet defense industries, while struggling to prosper, attempt to market dual use technologies, notably for nuclear power and space launch vehicles. For example, the space organization Glavkosmos has been reorganized to market a joint Russian-Kazakhstan space launch service, and Russia is offering SS–25 ICBM boosters as space launchers. Some goods and services are likely to be available at bargain basement prices.

As to the "Brain Drain", international aid and technological development programs involving or led by the United States will mitigate the danger. But the memory of a rogue scientist like Gerald Bull, selling his unconventional ideas in the Middle East, should remain a vivid warning of the potentially dangerous movement of expertise to countries that consider themselves to be at war.

Nearly 1 million Soviets were involved in the nuclear weapons program in one way or another, and 1,000 or 2,000 in our judgment have the skills needed to design and produce nuclear weapons. A few thousand more have knowledge and skills to develop and produce biological weapons. These workers, who have no civilian counterparts, are most likely to be lured away to help in foreign weapons programs. These people were well treated under the Soviet system and they will find it hard to find comparable positions now.

Now let me review our concerns in several other parts of the world. In our opinion, Iraq will remain a primary proliferation threat as long as Saddam Hussein remains in power and retains his cadre of trained scientists and engineers.

Saddam has built formidable programs in all four areas of weapons of mass destruction. The U.N. Special Commission is working diligently to eliminate his programs, but time and again he has dug in whenever the Commission gets close to something he especially wants to protect.

Desert Storm significantly damaged Iraq's Special Weapons Production Programs. However, they are not beyond recovery, and the time needed for recovery will be different for each.

Nuclear weapons production is likely to take the longest. Baghdad still has the technical expertise, but much of the infrastructure needed to produce fissile materials must be rebuilt. If Saddam were attempting to rebuild as rapidly as possible, he would need a few, but not many, years to do so.

The coalition severely damaged the chemical weapons production infrastructure, and it too will have to be rebuilt. Much of the hard-to-get production equipment was removed and hidden before the bombing started, however, and would be available for reconstruction.

If the U.N. sanctions were relaxed, we believe Iraq could produce modest quantities of chemical agents almost immediately. It would take a year or more to recover the chemical weapons capability it previously enjoyed.

Facilities belonging to the Biological Weapons Program were also damaged, but critical equipment was hidden during the war. Because the program does not require a large infrastructure, the Iraqis could be producing biological weapons materials in a matter of weeks, if they were to decide to do so.

We believe that a number, perhaps hundreds of Scud missiles and much Scud and Condor production equipment remain. The time and cost of reviving the Missile Program depend on what remains when inspection and destruction activities have been ended and on how easily Baghdad's engineers can get missing pieces from abroad.

Turning to Iran, Iran has embarked on an across-the-board effort to develop its military and defense industries, including programs in weapons of mass destruction. This effort is intended to prepare for the reemergence of the Iraqi threat and to solidify Iran's position as a military power in the Gulf and Southwest Asia.

Tehran is shopping western markets for nuclear and missile technology and is trying to lure back fiscal experts it drove abroad in the 1980's. Increasingly, however, it has turned to Asian sources; Iran's principal sources for special weapons since their war with Iraq have been North Korea for long-range Scuds and China for battlefield missiles, cruise missiles, and nuclear related technologies.

Iran probably hopes contacts in Kazakhstan will allow it to tap into the weapons technology of the former Soviet Union. We also have reason to believe that Iran is pursuing collaborative arrangements with other would-be special weapons developers in the region.

With respect to Libya, despite international outcries, Libya's Chemical Weapons Program continues. We estimate that the production facility at Rabta has produced and stockpiled as many as 100 tons of chemical agents. The Libyans have cleaned up the plant, perhaps in preparation for the long-awaited public opening to demonstrate its supposed civilian pharmaceutical purposes. But as far as we can tell, they have yet to reconfigure it to make it incapable of producing chemical agents.

Even if Rabta is closed down, the Libyans have no intention of giving up chemical weapons production. We have a number of reports that Libya is constructing another chemical weapons facility, one they hope will escape international attention.

For several years, the Libyans have made a concerted effort to build a biological facility, but they have not made much progress. We believe they need assistance from more technically advanced countries to build one and make it work.

As to delivery systems, Libya has only relatively short-range Scuds because of various setbacks in their acquisition efforts. Both Russia and China, for example, have rejected Libyan purchase requests. Tripoli is still shopping diligently, and South Koreans have alleged that Libya has found a seller in North Korea.

Persistent efforts to deny Libya access to nuclear, biological, and delivery system technology have undoubtedly hobbled these programs by forcing Qadhafi to turn to less advanced technology and less reliable sources available in the gray and black markets in the developing world.

Syria's turn to North Korea has already received a great deal of attention. Motivated by its inability to get SS–23s from the Soviet Union, Damascus has been acquiring extended range missiles from P'yongyang. It also appears to be looking for help from China and western firms to improve its chemical or biological weapon warheads. And finally, Damascus is negotiating with China for a nuclear reactor.

Other countries in the region seem to have decided to strengthen their deterrent and defensive capabilities as hedges against Iranian and Iraqi threats.

Israel continues to invest in development of the Arrow antitactical ballistic missile and to test and maintain its ballistic missile force.

The Saudis are expanding their CSS–2 missile support facilities, and Egypt has a missile production facility that could begin operations at any time.

India and Pakistan have been major concerns because of the constant tension between the two countries. These countries provide models for the behavior of other proliferating countries, and they are potential sources of weapons technology, especially for mideastern countries.

Both Pakistan and India have had nuclear weapon and ballistic missile programs for some time, but they recently have tried to acquire chemical weapons as well.

We have no reason to believe that either India or Pakistan maintains assembled or deployed nuclear bombs. But such weapons could be assembled quickly, and both countries have combat aircraft that could be modified to deliver them in a crisis.

However, both have publicly agreed to confidence building measures such as not attacking each others' nuclear facilities, and we are hopeful that the continuing dialog will bear fruit.

Turning to North Korea, the recent 8,000- or 9,000-mile odyssey of the North Korean arms carrier Dae Hung Ho is another reminder that proliferation cannot be considered only a middle eastern problem. North Korea's Missile Program is an urgent national security concern in East Asia, and it has ripple effects elsewhere, particularly in the Middle East.

North Korea has invested heavily in the military, and depends on arms sales for much of its hard currency earnings. Its copies of the Soviet-designed Scud missile are present throughout the Middle

East, as we all know. These include an improved version with a greater range than Iraq's Scuds, which have been sold to Iran and Syria.

Now we worry that P'yongyang is not far from having a much larger missile for sale, one with a range of at least 1,000 kilometers. Centered in western Iraq, a 1,000 kilometer circle would encompass not only all of Israel, but Cairo, most of Turkey, and much of Saudi Arabia as well. From North Korea, the missile could threaten Tokyo, Vladivostok, or Shanghai.

Recent events in North and South Korea will have bearing on our knowledge of the North Korean program. For instance, P'yongyang recently signed the IAEA safeguards agreement and representatives of the two Koreas have reached an historic agreement in principle for a nuclear-free peninsula.

Each side has committed itself not to "test, manufacture, produce, receive, possess, store, deploy, or use," nuclear weapons. Both sides also agreed not to have nuclear reprocessing or uranium enrichment facilities. Verification, to include on-site inspections, remains to be worked out.

With respect to China, North Korea's neighbor, China, also depends heavily on arms sales to fund its defense establishment. Beijing is developing two solid fuel SRBMs—the M–9 and M–11—that exceed the range and payload limits of the Missile Technology Control Regime, 500 kilograms and 300 kilometers.

It has offered to sell these missiles in the past, but Chinese leaders have indicated that their conditional commitment to abide by the control regime guidelines would apply to both missiles. We will just have to keep watching to see if they do.

China and North Korea have already sold lethal equipment to countries in the Middle East, and they could sell longer range missiles and the technology to produce them. In that event, the countries with special weapons will further expand and accelerate the special weapons arms race presently under way.

China has signed the Nuclear Non-Proliferation Treaty and its National People's Congress has ratified the agreement. China is now obligated to require all recipients of their equipment to safeguard the nuclear equipment and the material it sells. This development is important because China has long been a supplier of nuclear technology to the Third World. While China has claimed that all such exports were for peaceful purposes, it has not always required recipients to adhere to safeguards.

Let me say a word now about what we in the intelligence community are doing. We have been concerned about arms races and the proliferation of weapons of mass destruction for a long time. In 1958, for example, a national intelligence estimate was published on the arms race in the Middle East, and by the early 1960's we had begun regularly to estimate the scope of the global proliferation problem.

But the intensity and, I believe, the quality of the community's efforts have picked up considerably in recent years. Resources spent on tracking arms transfers and proliferation have grown substantially, and we have centralized and improved coordination among government components that work on the problem.

Just this month I further strengthened the CIA's Nonproliferation Center by putting in charge the intelligence community's most senior specialist on proliferation matters, Dr. Oehler, with me today.

This center has officers from several agencies who formulate and coordinate intelligence actions in support of our government's policy. This work will include the coordination of the extensive and detailed intelligence information the community supplies to arms and export control negotiators and other technical experts in the government.

The center also works closely with the State Department, which in turn has worked closely with the International Atomic Energy Agency and the U.N. Special Commission in implementing resolution 687 on Iraq. And we have and will, where appropriate, share intelligence with other countries working to stem the proliferation threat, including the governments of the new republics formed from the Soviet Union.

I should add, at this point, that I am under no illusions about the difficulty of the Center's work. Identifying new special weapons programs and measuring the progress of existing ones are extraordinarily difficult tasks.

Countries and people who deal in these technologies realize how difficult their activities are to detect and make every effort to cloak them. They trade in sensitive technologies through front companies or third countries and deal with innocuous sounding consignees. Because most of these technologies have legitimate uses, exporters and authorities can claim they had no way of knowing a shipment was destined for a special weapons program.

In too many cases, however, suppliers know who they are dealing with. They may even have sought the business and collaborated with the buyer to evade export regulations.

My hope is that the Nonproliferation Center will improve our ability to stitch together disparate pieces of evidence and expose such deceits. Then, the administration, Congress, other governments, and international organizations can act.

International agreements and organizations like the Nuclear Proliferation Treaty, the Missile Technology Control Regime, the IAEA, and the Australia Group, a regime to control chemical weapons and biological weapons technology, are all important tools to the struggle to control the spread of special weapons.

Their efforts have brought good results since operation Desert Storm and its revelations about Saddam's programs. And many countries have expanded export control laws, increased penalties for violators, and stepped up enforcement. The membership of the MTCR and the Australia Group has grown and specifications of equipment and materials of proliferation concern have been refined.

Still, there are limits to what we can expect multilateral control regimes to accomplish. Some countries will never find it in their interest to join. And membership is no guarantee of good behavior, because some countries only join to acquire trade, technology, and other benefits and have little intention of enforcing the regulations.

In closing, I want to emphasize the positive: The level of attention to export controls among civilized countries has never been greater. But we have our work cut out for us, and often we will have to deliver unpleasant news which requires difficult decisions.

Mr. Chairman, that concludes my statement. Mr. Oehler and I would be happy to answer questions.

[The prepared statement of Mr. Gates can be found in the appendix.]

The CHAIRMAN. Thank you very much. If you don't mind, Mr. Director, would you introduce Mr. Oehler and his title for the reporter to obtain that correctly?

Mr. GATES. My colleague is Dr. Gordon Oehler, and he is the Director of the Nonproliferation Center, the Director of the DCI Nonproliferation Center.

The CHAIRMAN. Well, thank you very much, Mr. Director, for a very valuable report to us. I can't help but recall our great American poet, Robert Frost, who I think must have been in a better mood, in 1946. He coined a poem. He called it "U.S. 1946 King X." "Having invented a new holocaust and been the first to use it to win a war, how they make haste to cry with fingers crossed, kings, no fair to use it anymore."

I just couldn't help, all during this, recalling those lines, which I remembered, at the time they were first published, how impressive they were. And it is a dilemma, ever since the use of the mass destruction weapon, the A-bomb.

But nevertheless, for our purposes this morning, the thing I have uppermost in my mind is my concern as to the proper role and impact that the Central Intelligence Agency particularly should have, that we presume does have, that our study of the records and the minutes reveal that despite the findings and recommendations of not only the CIA but the national security agency, that other sections of the administration prevailed.

So the idea—and we pointed that out in some of the first hearings we had, almost—well, it will be—it is 1½ years ago that we had the first hearing. And in the first hearing, we raised that question about, why it was when we had these interagency groups meeting, and the intelligence community was present, and they were saying, we have good reason to believe that this does have some military aspect use, nevertheless, that was overlooked.

And also, one of the prime requirements in the case of the Export-Import Bank, and that is our jurisdiction, where the controlling dictum is the creditworthiness of the Nation, and we had other agencies reporting on that, including the Treasury, which said, it isn't creditworthy, but nevertheless we had other vetoing power, and the process continued.

So my question is: How can we limit, for example, the export of dual use technology items? Should someone or some agency or some official in the intelligence community have some sort of a veto power over the export of these technologies given the need for the end use analysis? Would you have any ideas or recommendations with respect to that?

I know that this is asking for a judgment evaluation having to do with something that frankly we don't have direct jurisdiction over,

it is administrative. And I, for one, have been very loathe to try to get statutory language to fine tune the administration of anything.

But in this case, is there anything that has been done or can be done or can be revealed as being done, whereby there would be this veto power with these agencies such as the intelligence community, on such delicate matters as this, technological matters and sophisticated matters?

Mr. GATES. Mr. Chairman, as I probably will on most of the questions, let me take a crack at it first, and then turn to my colleague for anything he might like to add. First of all, Intelligence plays a different kind of role under different circumstances in the making of policy. We basically bring our information to the policy community and our analysis, and it is one of the factors that influences the judgments and the decisions that the policy community makes. It is rarely the only consideration.

Sometimes our information is ambiguous, particularly in the early stages of the development of a problem. Sometimes it is questioned. Sometimes we are wrong.

Let me give you one example. In the fall of 1989, the intelligence community did a national intelligence estimate on Iraq's intentions. And that estimate essentially said that we believed for the next 2 to 3 years, having just concluded a 10-year war with Iran, we believed that Saddam will not launch an aggression against any of his neighbors, that he will focus on rebuilding internally, economically, and so on.

So we provided them with a message of reassurance in terms of Saddam's intentions, and we were wrong. And we provided—we began in the late spring providing information of his military buildup too, so it works both ways.

The problem that you cite in terms of the control of these dual use technologies is a difficult one in part because, and I am no expert in this, as you indicate, you indicated it is not in the purview of this committee. I will also say it is not within the purview of my expertise.

But it is my sense that most of the regulations and laws that we have with respect to particularly dual-use technologies, and I could be wrong on this, were focused or were written with the Soviet Union in mind.

And so they are focused through the COCOM mechanism in Europe that again has—or that is headquartered in Europe, that has basically been focused in the past, for years and decades, on Eastern Europe and the Soviet Union. So I think in the first instance there may be some gaps in terms of the law, in terms of an ability to deal with some of these situations.

This says, I think, the decision whether or not to block the export of a particular technology is, at root, a policy decision that has to be made by those who make policy for this government.

Our intelligence can be a contribution to that decision. We are almost always a player in it. We provide our information to the State Department, the Defense Department, the Commerce Department on specific technologies and so on.

So there is no question of our being shut out of the process or not having our day in court, as it were. But I think that decision really belongs to them.

But in terms of these rules and other things that might be done, let me ask Dr. Oehler if he wants to add anything.

Mr. OEHLER. No, I don't really have much to say. Again, the intelligence community is but one input. Also, in many cases, it is in the interest of the U.S. Government, of course, to promote commerce where it is legitimate. Oftentimes, the administration, the government, will look at a potential sale and perhaps try to work with guaranties, either diplomatically or technical guaranties, or some other mechanism to ensure that a particular sale will not be used for weapons of mass destruction.

So, again, the intelligence community provides but one input to that and can direct their efforts in that way as well.

The CHAIRMAN. My time is expired. I will stick to this and recognize the other members with that in mind and then perhaps we might have a question or two at the end with those present asking questions.

Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

Thank you, Mr. Gates, very much for your testimony.

Director, I wonder if you could, in light of the concentration of your comments here today as requested by the committee, if you could tell us something about recent reports that nuclear bombs have been taken from Kazakhstan and other CIS States to Iran.

Mr. GATES. We have seen various reports of this in the press and elsewhere. They vary a good deal. There are some minute parts of some of these reports that seem to us that can be verified, but the bottom—and some of them would appear to be credible. But the fact is that we have been unable to confirm any of them independently through our own sources.

We are also alert to the possibility of scams and hoaxes. So the bottom line, Mr. Bereuter, is that, and I will again defer to Dr. Oehler, but I think the bottom line is we have been unable independently to corroborate any of these reports. And in some cases where we have had information, it has tended to discount those reports.

Mr. OEHLER. Most of these reports contain some piece of information we can say is outright wrong. So we have some question about them. But the numbers of reports and in some cases the details in the reporting still leaves us cause for concern. So we are looking at them very carefully, even though we have not come up with any proof that they are valid yet.

Mr. BEREUTER. Some of my constituents have been in the Ukraine and several other of the ASEAN republics lately on exchange programs and technical assistance programs, and they report directly that the military officials in those areas intend to or have already sold conventional arms to Iran or have bartered them. So I ask this question in light of what I know seems to be happening in conventional arms.

Mr. GATES. Excuse me, Mr. Bereuter. I might, in that respect, the Russians and others have sold conventional weapons to Iran. They have sold MiG–29s, they have sold fighter bombers, they have sold diesel-powered submarines, they have sold a number of tanks. So there is a considerable market in arms going on.

Mr. BEREUTER. Yes, thank you.

Mr. Director, I wonder if you could give us an assessment of about how much the United States Government knew about the Iraqi nuclear program before Desert Storm and, in light of what we have discovered since, how accurate was the information that we had or how complete about the Iraqi nuclear program?

Mr. GATES. I think we had a fairly, a fair understanding of the main enrichment program, using gas centrifuge. We also had a pretty good idea about when they would be able to produce highly enriched weapons grade uranium.

What we missed was their calutron program, a program that would have been able to produce weapons grade material probably 2 or 3 years before the gas centrifuge system.

We knew that the facilities in which it turned out the calutron project was located—was nuclear related, and, as a result, it was on the target list for Desert Storm. And we had pretty good intelligence overall.

Some 70 targets in Iraq were those we had identified as being associated with the nuclear program. But I think that the bottom line is that, while we had a pretty good idea of some of the basic elements of the program, we underestimated both the scale and the pace of it.

Mr. OEHLER. I think that is correct. Since the IAEA inspections and the data they have brought out, the scope of the program is significantly larger than we thought. The timing, what we have learned since the war, was that they would have probably had a nuclear weapon before we had estimated, based upon our knowledge of their gas centrifuge program.

Mr. BEREUTER. One more followup question, then. If we had been totally successful in limiting the export of technology through our export control programs and those of our counterparts in COCOM, and through the military control limitation programs as well, could we have stopped the development of the calutron?

Mr. OEHLER. Perhaps not. The calutron, Saddam did receive an awful lot of assistance from primarily Western European firms, general technical assistance. All of the nuclear experts were educated out of the country. There was an awful lot of foreign assistance in the gas centrifuge program. That part was fairly clearly recorded.

On the Calutron Program, most of that work was done inside the country by the people who were trained outside the country, so other than the basic education, for example, there is not much that export controls could have done about the calutron program.

Mr. BEREUTER. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

Mr. Sanders was one of the ones originally here, so I will recognize Mr. Sanders.

Mr. SANDERS. Thank you, Mr. Chairman, and I will be very brief. And I want to thank Mr. Gates very much for joining us today.

Mr. Gates, in terms of Iraq, let me just read you a statement that appeared originally in the *Los Angeles Times*, which says that, at around 1986, "President Bush relayed the advice Saudi Arabia sent Iraq an undisclosed number of American-made 2,000 pound bombs, a classified State Department cable indicates. A source

knowledgeable about the transfer said the Saudis sent Iraq—the Saudis sent Iraq—500 MK-846 bombs, and a number of British Lightning fighter bombers to help Saddam escalate their war. These sources said the Saudis transferred the weapons with approval from unnamed U.S. officials."

When we talk about the proliferation of weapons of mass destruction around the world, and when we talk about our concerns of what led up to the Persian Gulf war, many of us are concerned about the role that our own government is playing in the proliferation of weapons to Third World countries. So my question to you is, are you personally aware or have you ever been aware of any—obviously, we have one and I would like you to comment on that, if you would like—any third country transfers of United States military technology or military armaments to Iraq in the period 1980 through 1990? In this instance we saw weaponry going to Iraq through Saudi Arabia, and I would appreciate your commenting on that and if you could tell us of other examples of how Iraq received weapons from the United States.

Mr. GATES. I did not, given the request of the committee, did not review records or information on that subject, and basically dealing with U.S. weapons—would you happen to know?

Mr. OEHLER. Not the—I know nothing of the 2,000 pound bombs' case, other than what I read in the paper.

I will say, many, many countries around the world benefited from the Iran-Iraq war financially in selling—which includes Western countries. It includes, as we mentioned earlier, North Korea, China, everyone. And there is a lot of U.S. technology in weapons systems around the world, so it wouldn't be at all surprising to me that some technology did go that way.

Mr. SANDERS. I understand that and I agree with you, but I think the implication of this article in the *Los Angeles Times*, and it is true, suggests this wasn't weapons floating around the world which ultimately ended up in Iraq, but weapons which had emanated from the United States.

What it suggests is that the weapons, our weapons, manufactured in the United States, were meant to go to Iraq and went to Saudi Arabia first and then to Iraq. That is different than weapons floating around the world and being purchased and sold.

So my question is: Are either of you gentlemen aware of other instances, or is this not true, of weapons manufactured in the United States meant for Iraq, from the United States Government to Iraq, going to a third country?

Mr. GATES. I don't know the answer to that question. I think that it is probably better addressed to either State Department or Defense Department witnesses.

Mr. SANDERS. So that is something you are not aware of?

Mr. GATES. No.

Mr. SANDERS. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. MORAN. Mr. Gates, as you know, the President issued a National Security Council directive within the year preceding Iraq's invasion of Kuwait, ordering the Federal Government to increase its assistance to Iraq. I would like to ask you about some of the sit-

uations that appear to have been a result of that directive urging the Federal Government to be more supportive of Saddam Hussein.

One story that keeps cropping up, and it has even come from some employees of this firm, is that there is a firm that produced high intensity furnaces. It had a contract to supply such furnaces to Iraq, but its employees who were dealing with Iraq came to the conclusion that rather than the stated intent of this material, which was to produce prosthetic devices for Iraqi citizens, that the actual intent was to use it in the production of tips for weaponry, cones for weaponry.

So the story goes that they informed the Commerce Department of this and that they would rather withdraw the contract than aid in the availability of weaponry, which was certainly counter to the intent of the contract, and they were informed by the Commerce Department that they did not have that right; that they were required to comply with the terms of the contract. So, essentially, they were informed, they were required to ignore their own perception of the intended use of this material.

Are you aware of situations like this? And the thing I am most interested in, from your perspective, would it not be appropriate for people in the Commerce Department, before making such situations—I mean such decisions, to check with the CIA to confirm this or to negate it or to get some advice before they go making decisions that might affect the military security not only of the Middle East but ultimately of the United States? How much was the CIA in the loop, to your knowledge, in other words?

Mr. GATES. Why don't you go ahead.

Mr. OEHLER. The CIA did provide information in the Policy Coordinating Committee, discussions on cases such as that one. One of the things that is examined is, is that type of furnace on the control list. The statements that you made about the Commerce Department say, pressuring the firm. I have no knowledge of that.

Mr. MORAN. But they did, when situations like this, where there might have been a question by the Commerce Department with regard to military security issues, the CIA is brought into those, before such a decision would be made.

And let's take a hypothetical example rather than specifics, but if an agency has a concern with regard to any role that might be played in the making available of materials that could be converted to military use—and that is really what this hearing is about, the use of the commodity credit guarantees to enable Iraq to expand its military capability—the CIA is brought into that? They are not left out of the loop? They are an integral part of the policy discussion so that the intelligence network, the intelligence resources that this country has available, are brought to bear before a decision is made with regard to private contracting with other nations?

Mr. OEHLER. The Commerce Department does have lists that they watch, and if there is a trigger that this particular item has a dual-use capability and maybe is going to a country or a project of concern, then they will bring that to a government policy decision-making body. The intelligence community is represented in that body. Again, its position is requested.

Mr. MORAN. OK. Now, you probably read the same article I did. It was in the *Washington Post* Outlook section about Gerald Bull and his role in exporting weaponry, expanding the howitzer capability, the conventional howitzer capability, and it appeared that many of the howitzers that were—in fact could go, travel much further distances than our own such weapons that were employed in Desert Storm—now, as it turns out they weren't particularly effective—but they had, Iraq had the capacity, greater capacity than the United States, and in tracing back where they got that capacity, it seemed to come from China, South Africa, I think were one of the suppliers, and maybe Austria or one of the European countries, and ultimately back to Gerald Bull, who seemed to be developing the technology in the United States with some American contracting assistance, but much, obviously, it was not sanctioned.

In fact, there was a story about a defense contractor, a firm in California, that gave China the capability of improving this technology. I know you are familiar with the article. Was much of that article true?

In other words, a rogue scientist, like Mr. Gates cited, could, in fact, expand the technological capability throughout the world and, without our being able to control the process, and that capability can ultimately wind up in the weapons that our own soldiers face.

It seemed as though it was a process and a technology that really got out of our control, although we were ultimately responsible for enabling the development of it. Mr. Oehler.

Mr. OEHLER. Yes, he, Mr. Bull, had a number of contracts early in his career with the Defense Advanced Research Projects Agency looking at long-range ballistics. No question, but that Mr. Bull was a world expert on that. You also know he spent some time in prison for violating United States export control laws in South Africa.

The South African connection of sales to Iraq, of long-range artillery, was Saddam's premiere long-range artillery piece. However, as you stated, that didn't have any impact in the war, because one of the—it isn't enough to be able to lob an artillery shell long distance, you have to be able to know where to shoot it. And the United States has had very good, let us call it over-the-horizon reconnaissance capabilities for targeting, but very few countries do.

And that capability that he had may have been good for international prestige purposes, and so forth, but not good for military capability. That is one of the things that we see that is on the downside of some of these rogue scientists, is that many times they are advocates for some particular technology, and, indeed, a country might want to buy that, because it is some very prestigious technology, but it doesn't fit into an overall military package very well.

And the other thing I would say is that, as Mr. Bull found out, it is a very dangerous business to be in.

Mr. MORAN. Yes, I understand that.

My followup question, Mr. Chairman, when I get an opportunity, relates to our relationship with China, South Africa, and the European nations that seem to be—that in this case were the source of those weapons, and yet we choose to have most-favored-nation status with China, and when they continually violate the terms of agreements that we have reached.

That is the concern that there seemed to be no control over the proliferation, and yet there should have been control and it seems as though we might have had leverage to exercise that control.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

The Chair will notice that Mr. Riggs has arrived. Mr. Riggs, do you have any questions that you want to ask at this point or would you rather defer?

Mr. RIGGS. Mr. Chairman, I would rather defer, but I would ask unanimous consent to enter into the record my opening statement.

[The prepared statement of Mr. Riggs can be found in the appendix.]

The CHAIRMAN. Certainly, without objection so ordered.

Let me say to Mr. Riggs and my colleagues that are here, we have two panels after this, a total of about six witnesses, so we do want to proceed.

I will recognize, let us say 3 minutes each, sort of a round-robin, then maybe by then, Mr. Riggs, you might want to use your 3 minutes. It has to do directly with what is on hand here, the proposed legislation.

I will also ask unanimous consent to provide in writing several questions that I would like to direct to you in writing that you can answer for the record, if you please.

[The information referred to can be found in the appendix.]

In your testimony, and particularly concerning the relations between India and Pakistan, on page 12, I think you go directly to the reason for this bill. These two countries are among the poorest in the world, yet they use their scant resources to pursue nuclear technology and sometimes using funds provided by the World Bank. This tension between the two countries is the reason for major concerns, as you say in your testimony.

Wouldn't the requirement in the law, if such were possible, for these countries to join the nonproliferation regime help stabilize this relationship, such as we seek as the basic intent of this legislation, proposed legislation?

Mr. GATES. I would want to consult with our experts on India and Pakistan on that question, Mr. Chairman. It has been my view that at this point both of these nations, for whatever reasons and however wrongly or rightly, have considered the possession of nuclear weapons to be necessary for their national survival. I think Pakistan's willingness to put at risk all of its assistance programs from the United States to pursue that program leading to the cutoff of that assistance, would illustrate how deep is its commitment to pursuing that program.

I would be happy to take that question for the record and have our experts expand on it.

The CHAIRMAN. Fine. I think it is the heart of the whole matter, because we concentrate on the Middle East, but there it is obvious that we have had a state of war between Iraq and Israel since, what, the late 1940's. We had the preemptive strike by Israel, Baghdad, precisely to try to knock out some nuclear facility. But, nevertheless, when the war broke out, the only Arabic nation that did not ally itself with Iraq was Syria. But now Syria has obtained muchly improved Scuds through North Korea.

So we cannot focus and say thou shalt not with respect to whatever Middle East tension is there, because, obviously, the same reasons that these nations of Pakistan and India feel they have to have some kind of nuclear protection is the reason the Middle Eastern countries are motivated.

So that goes to the heart, and I would appreciate a response as to the germaneness and the propriety and perhaps the sufficiency of such legislation as we are presenting. I appreciate it.

The CHAIRMAN. Mr. Bereuter.

Mr. BEREUTER. Thank you very much, Mr. Chairman.

Director Gates, you discuss at several points in your presentation the difficulty that the brain drain creates for us in the proliferation area in your section on the CIS challenge. You particularly mention a number of Soviet scientists that were working in the Weapons Program, including programs involving weapons of mass destruction.

I can't help noting that the new administration program to establish the Science and Technology Center with the Russians should be very helpful in this respect, and we have one about to start, I think, in the Ukraine, also Science of Technology Center, and parts of the administration's Russian aids package are very relevant, as are parts of the legislation being formulated in the Foreign Affairs Committee.

In your comments, on page 7, what is the intelligence community doing? You give us some encouragement there about efforts under way, but I wonder if there is anything you would like to supplement which might be said to be good news or encouraging efforts under way in our government or multilaterally to reduce the problems of proliferation of weapons of mass destruction? Anything else that you think this committee should be encouraged about or should take action in some fashion to supplement?

Mr. GATES. Well, I think that, first of all, there is, particularly reading my testimony, a temptation to look purely at the negative things that are happening. There are some positive developments, and have been over the recent time, that suggest that the nonproliferation effort is, in fact, worth the effort.

South Africa has signed up to the Nuclear Proliferation Treaty, the Argentineans and Brazilians have moved away from their programs, the South Koreans and the Taiwanese have done so. Several States have signed up to the MTCR, the missile technology regime. Brazil and Argentina, again in this category on the ballistic missile sites, have moved away from their Ballistic Missile Programs. So there are a number of governments that have responded to the pressures or encouragement, or whatever you want to say, to move away or to abandon their own programs or not to pursue that.

So all of these efforts do have some potential to affect these governments, and I think that the variety of programs that the U.S. Government has had over the years has contributed to that. And I will be honest with you, one of the reasons why I was prepared to come up here and why I was also prepared to talk to Senator Glenn's committee, is that I also happen to think that a spotlight shined on these activities makes these countries more cautious about it and forces them to contemplate the costs of pursuing these kinds of activities.

Mr. BEREUTER. I think you are absolutely right, and I thank you for your testimony today and before the Glenn committee.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman. I know we are all aware of Santayana's observation that nations who don't learn from the mistakes of history are doomed to repeat them. That is a little paraphrase, but it seems to me that there are a lot of mistakes that occurred prior to Desert Storm in terms of the fourth largest army in the world who became our opponent having developed much of its military capability indirectly or directly from the United States.

I have a great deal of confidence in the resources of the Central Intelligence Agency, when it is not politicized by the people outside the agency. But have the professionals within the CIA done an analysis of where the United States might have prevented Iraq from developing such military capability? In other words, examined the reasons for the National Security Council directive that was issued by the President; examined some of the easy accessibility of nuclear and nonconventional technology, or even conventional battlefield technology, in terms of the howitzers and all, from countries with whom we still maintain very favorable relationships?

We just agreed to, or the President has been wanting China to remain a most favored nation; same thing that we have improved our status with South Africa and the like.

Is there analysis, a review of some of the things that might have been changed that might have prevented Desert Storm from having to occur in the first place? Has such an analysis been considered or conducted, Mr. Gates?

Mr. GATES. I don't think so. Gordon, do you know of anything.

Mr. OEHLER. We look at small pieces of the problem that you are talking about. How could we have better focused our intelligence resources on the problem more for the future, of doing better in the future. Also, how could we have better made use of liaison relationships and so forth.

Those kinds of things, I think, we are looking forward to for stopping it in the future, not so much of what could we have done in the past.

Mr. GATES. After the fact, we normally will focus pretty strictly on how we could have done better in our own region. That is part of the reason for a number of the structural changes we are making in the intelligence community, is an outgrowth of that whole period, including the war.

Mr. MORAN. It seems much of the problem was that we reached a conclusion that the enemy of our enemy must be our friend, and the chairman mentioned Syria, which may be a comparable situation. The fact that Syria was the enemy of our enemy certainly ought not give us reason to classify Syria as a friend, and I would hope we not commit any of these mistakes that seem to be coming visible now in a delayed fashion. And I would think that the CIA would be the best source of such an analysis, but thank you for the time, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Moran. Mr. Riggs, do you have any statement or questions?

Mr. RIGGS. Thank you, Mr. Chairman.

Director Gates, it is my view that what we need for the 21st century is an arms control and foreign policy blueprint that is rational and farsighted and that seeks to foster and promote economic cooperation rather than military competition between the nations of the world.

Do you think this legislation will take us in that direction?

Mr. GATES. I don't think I am in any position to judge the merits of the legislation, Mr. Riggs. I think that that really is a question probably better directed at the State Department witnesses.

Mr. RIGGS. Let me ask you, then, a more specific question. I also am of the belief that our participation in the aid package to the Commonwealth of Independent States is in our vital security interests as a nation. Do you see anything in the legislation, because obviously it would impose restrictions, potentially, on the availability of funding through the World Bank and the Export-Import Bank.

Do you see anything in the legislation that would affect our ability to participate in that aid package as proposed by the administration?

Mr. GATES. Well, the only thing that I can say in that respect is that we do have the impression from information that we have gotten from Moscow, that during the recently concluded Congress there, that the ability of Mr. Yeltsin and Mr. Gaidar to point to western assistance to Russia or potential assistance certainly was helpful to them politically in the conduct of that Congress.

Mr. RIGGS. The other question I would like to ask you, Director, is very quickly about the transfers of technology and supplies and what have you between, or using third countries as intermediaries.

Is that a rising concern as we see, what, something like 22, 24 nations around the world seeking to perfect nuclear weapon technology?

Mr. GATES. I am sorry, the first part of your question?

Mr. RIGGS. The transfer of technology and parts and supplies through third country intermediaries.

In other words, we see a lot of direct transfer, but we also see transfer through a third country as an intermediary. I wonder if that is a concern to the agency and wonder what we can do to further restrict such transfers of technology.

Mr. GATES. Let me defer to Dr. Oehler.

Mr. OEHLER. Yes, as export controls in most of the, for example, the Western European countries become tighter, more transfers to third countries are occurring, because in many of those countries the export controls are not as tight anymore.

We saw the same thing back in the COCOM days, when COCOM started to severely restrict technology into the Soviet Union at the time, then we started seeing it pop up elsewhere.

So it is a major concern and we are watching it and working with many of those third world countries to try to prevent them from being an unwitting participant in this.

Mr. RIGGS. Thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, sir. Thank you very much, Mr. Gates and Mr. Oehler. Deeply appreciate, again, your cooperation and

your help to this committee, and your patience. Thank you very much.

Mr. GATES. Thank you, Mr. Chairman.

The CHAIRMAN. The witnesses, or panel number one, will consist of Mr. William Rope, the Principal Deputy Assistant Secretary for Politico-Military Affairs of the U.S. Department of State; Mr. Carl Ford, Principal Deputy Assistant Secretary for International Security Affairs, the U.S. Department of Defense; Mr. John P. LaWare, the head of the Supervision and Regulatory Committee of the Board of Governors of the Federal Reserve Board; and Mr. Barry Newman, Deputy Assistant Secretary for International Monetary Affairs, the U.S. Department of the Treasury.

Gentlemen, is there any objection to my recognizing you in the order I introduced you? Does any one of you have any time problems or constraints?

If not, we will then recognize Mr. Rope.

STATEMENT OF WILLIAM ROPE, PRINCIPAL DEPUTY ASSISTANT SECRETARY FOR POLITICO-MILITARY AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. ROPE. Mr. Chairman and members of the committee, thank you for this opportunity to appear before you this morning. I will try to be brief.

I want to say from the outset that this administration assigns a very high priority to stopping the flow of nuclear, chemical, and biological weapons and of missiles that can deliver them. We also place high priority on curbing destabilizing transfers of conventional arms. In the last 3 years, we have implemented initiatives in each of these areas and are pleased with our record of accomplishment.

Mr. Gates has mentioned the expansion of the missile technology control regime. Not only has it grown, but nonmembers, such as China and Israel, have agreed to apply the MTCR's strict guidelines and controls.

The Australia group dealing with chemical weapons proliferation has also expanded, and its controls have been greatly increased, and it is now extending the scope of its work to biological weapons. We are making steady progress toward a Chemical Weapons Convention that will ban chemical weapons worldwide.

Mr. Gates has mentioned that China and South Africa have acceded to the Nuclear Non-Proliferation Treaty. France also expressed its intention to join.

We have greatly strengthened U.S. export controls related to chemical and biological weapons. Under the administration's Enhanced Proliferation Control Initiative, we can now target the violators worldwide, and we have persuaded more than 20 countries to adopt comparable controls.

The Nuclear Suppliers Group, also known sometimes as the London Club, is now 27 countries. It has agreed, for the first time ever, on an export control list of dual-use items that it will be controlling. That is a major step forward in assuring that most countries in the world capable of providing such items will export them responsibly.

The Proliferation of Weapons of Mass Destruction

and the

Intelligence Community Response

U.S. House of Representatives

Committee on Banking, Finance, and Urban Affairs

Robert M. Gates

Director of Central Intelligence

8 May 1992

Good morning Mr. Chairman. I thank you for the opportunity today to discuss the proliferation problem.

Thirty years ago President Kennedy faced a grave threat when his intelligence officers discovered that the Soviet Union had placed nuclear-capable missiles in Cuba. As the President prepared to confront the Soviet challenge, he sent envoys to our European Allies to explain the situation and his intentions. In London, Prime Minister Macmillan told Ambassador Bruce and the envoy, Dean Acheson, that Europeans had grown accustomed to living near Soviet nuclear-tipped missiles. He said Americans ought to get used to them, too.

We know President Kennedy didn't buy that advice, and in the 30 years since we stood on that famous brink, he and six other Presidents have sought, in one way or another, to limit the danger and spread of weapons mass destruction.

In 1962 only three countries had weapons of mass destruction and the means to deliver them. Today, the Soviet Union is 15 countries, and four of them have nuclear weapons on their territory. Now more than 20 countries have, are suspected of having, or are developing nuclear, biological, or chemical weapons and the means to deliver them.

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I want to be clear that only missiles and bombers located in China and the former Soviet Union can directly threaten the United States with massive destruction. And we do not expect any other country to acquire the capability to directly threaten U.S. territory militarily for at least the next ten years.

Nonetheless, special weapons located in the Middle East, South Asia, and the Pacific menace our friends and our forces stationed abroad. These weapons also fuel suspicions and arms races, and they make regional disputes more dangerous and difficult to resolve. Because of the potential global consequences of their use, they also threaten to involve us in disputes that otherwise would not be ours.

Overview

There are several reasons for the spread of weapons of mass destruction.

First, by US standards, the technologies used to make many of them are relatively old technologies. They are more available and more easily absorbed by Third World countries than ever before. Nuclear weapons and missile technologies

date back to the 1940s. BW and CW technologies are even older, and they are easier and cheaper to develop.

Second, most of the technologies used to make special weapons have legitimate civilian applications. As a result, trade in them is widespread and difficult to restrict.

--For example, chemicals used to make plastics and process foodstuffs can be used to make nerve agents.

--A modern pharmaceutical industry could produce biological warfare agents as easily as vaccines and antibiotics.

--And much of the technology used for space launches can be applied to a ballistic missile program.

And finally, greed plays a big role. The sizeable profits that can be made in the transfer of weapons and sensitive technologies are just too great for some companies or countries to pass up.

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The CIS Challenge

The proliferation challenge was already complicated before the Soviet Union ceased to exist. The USSR's collapse not only threatened the stability of Moscow's centralized nuclear command and control system, but it has threatened to unleash technologies, materials, and personnel that had been carefully controlled.

The multiple internal crises in the former Soviet Republics all are occurring while the remnants of the Union still own about 30,000 nuclear weapons. Four months since the Union figuratively shut its doors, we are still looking to see how Russia and the other republics sort out ownership of nuclear weapons and what procedures they establish to maintain, control, and dismantle them.

Russian and other republic leaders are committed to destroying much of their nuclear stockpile, but even under the best of circumstances, it will take more than ten years to do so. And as long as nuclear stockpiles exist under troubled political conditions, they present a tempting target for leaders who are, or might become, desperate for nuclear weapons.

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We have seen press reports that Soviet nuclear weapons have already been offered on the black market. Thus far, we have no independent corroboration that any of these stories are true, and all that we have been able to check have turned out to be false.

We also can expect to see former Soviet defense industries, while struggling to prosper, attempt to market dual-use technologies, notably for nuclear power and space launch vehicles. For example, the space organization Glavkosmos has reorganized to market a joint Russian-Kazakhstan space launch service, and Russia is offering SS-25 boosters as space launchers. Some goods and services are likely to be available at bargain basement prices.

As to the "Brain Drain," international aid and technological development programs involving or led by the U.S., will mitigate the danger. But the memory of a rogue scientist like Gerald Bull, selling his unconventional ideas in the Middle East, should remain a vivid warning of the potentially dangerous movement of expertise to countries which consider themselves to be at war.

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Nearly one million Soviets were involved in the nuclear weapons program in one way or another, and one or two thousand have the skills needed to design and produce nuclear weapons. A few thousand more have the knowledge and skills to develop and produce biological weapons. These workers, who have no civilian counterparts, are the most likely to be lured away to help in foreign weapons programs. These people were well treated under the Soviet system and will find it hard to get comparable positions now.

Now let me briefly review some of our concerns in other parts of the world.

Iraq

In our opinion, Iraq will remain a primary proliferation threat as long as Saddam Husayn remains in power and he retains his cadre of trained scientists and engineers.

Saddam has built formidable programs in all four areas of weapons of mass destruction. The UN Special Commission is working diligently to eliminate Saddam's programs, but time and again Saddam has dug in whenever the Commission gets close to something he especially wants to protect.

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Desert Storm significantly damaged Iraq's special weapons production programs. However, they are not beyond recovery, and the time needed will be different for each:

--Nuclear weapons production is likely to take the longest time. Baghdad still has the technical expertise, but much of the infrastructure needed to produce fissile materials must be rebuilt. If Saddam were to attempt to rebuild as rapidly as possibly, he would need a few--but not many--years to do so.

--The coalition severely damaged the chemical weapons production infrastructure, and it too will have to be rebuilt. Much of the hard-to-get production equipment was removed and hidden before bombing started, however, and would be available for reconstruction. If U.N. sanctions were relaxed, we believe Iraq could produce modest quantities of chemical agents almost immediately. It would take a year or more to recover the CW capability it previously enjoyed, however.

--Facilities belonging to the BW program were also damaged, but critical equipment was hidden during the war. Because the program does not require a large infrastructure, the Iraqis could be producing BW materials in a matter of weeks, if they were to decide to do so.

--We believe a number, perhaps hundreds, of Scud missiles and much Scud and Condor production equipment remain. The time and cost of reviving the missile program depend on what remains when inspection and destruction activities have been ended and on how easily Baghdad's engineers can get missing pieces from abroad.

Iran

Iran has embarked on an across-the-board effort to develop its military and defense industries, including programs in weapons of mass destruction. This effort is intended to prepare for the reemergence of the Iraqi threat and to solidify Iran's position as a military power in the Gulf and Southwest Asia.

Tehran is shopping Western markets for nuclear and missile technology and is trying to lure back technical experts it drove abroad in the 1980s. Increasingly, however, it has turned to Asian sources; Iran's principal sources of special weapons since their war with Iraq have been North Korea for long-range Scuds and China for battlefield missiles, cruise missiles, and nuclear-related technologies.

Iran probably hopes contacts in Kazakhstan will allow it to tap into the weapons technology of the former Soviet Union. We also have reason to believe that Iran is pursuing collaborative arrangements with other would-be special weapons developers in the region.

Libya

Despite international outcries, Libya's CW program continues. We estimate that the production facility at Rabta has produced and stockpiled as many as 100 tons of chemical agents. The Libyans have cleaned up the plant, perhaps in preparation for the long-awaited public opening to demonstrate its supposed civilian pharmaceutical purpose. But as far as we can tell, they have yet to reconfigure it to make it incapable of producing chemical agents.

Even if Rabta is closed down, the Libyans have no intention of giving up CW production. We have a number of reports that Libya is constructing another CW facility -- one they hope will escape international attention.

For several years the Libyans have made a concerted effort to build a BW facility, but they have not made much progress. We believe they need assistance from more technically advanced countries to build one and make it work.

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As to delivery systems, Libya only has relatively short-range Scuds because of various setbacks in their acquisition efforts. Both Russia and China, for example, have rejected Libyan purchase requests. Tripoli is still shopping diligently, and South Koreans have alleged that Libya has found a seller in North Korea.

Persistent efforts to deny Libya access to nuclear, BW, and delivery system technology have undoubtedly hobbled these programs by forcing Qadahfi to turn to less advanced technology and less reliable sources available in gray and black markets of the developing world.

Syria

Syria's turn to North Korea already has received a great deal of attention. Motivated by its inability to get SS-23s from the Soviet Union, Damascus has been acquiring extended range missiles from P'yongyang. It also appears to be looking for help from China and Western firms to improve its CW or BW warheads. And finally, Damascus is negotiating with China for a nuclear reactor.

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Other countries in the region seem to have decided to strengthen their deterrent and defensive capabilities as hedges against Iranian and Iraqi threats.

--**Israel** continues to invest in development of the Arrow anti-tactical ballistic missile and to test and maintain its ballistic missile force.

--The **Saudis** are expanding their CSS-2 missile support facilities, and **Egypt** has a missile production facility that could begin operations at any time.

India and Pakistan

India and Pakistan have been major concerns because of the constant tension between the two countries. These countries provide models for the behavior of other proliferating countries, and they are potential sources of weapons technology, especially for mideastern countries.

Both Pakistan and India have had nuclear weapon and ballistic missile programs for some time, but, they recently have tried to acquire chemical weapons as well.

We have no reason to believe that either India or Pakistan maintains assembled or deployed nuclear bombs. But such weapons could be assembled quickly, and both countries have

combat aircraft that could be modified to deliver them in a crisis.

However, both have publicly agreed to confidence-building measures such as not attacking each others' nuclear facilities, and we are hopeful that the continuing dialog will bear fruit.

North Korea

The recent eight or nine thousand mile odyssey of the North Korean arms carrier Dae Hung Ho is another reminder that proliferation cannot be considered only a middle eastern problem. North Korea's missile program is an urgent national security concern in East Asia, and it has ripple effects elsewhere, particularly in the Middle East.

North Korea has invested heavily in the military, and depends on arms sales for much of its hard currency earnings. Its copies of the Soviet-designed Scud missile are present throughout the Middle East, as we all know. These include an improved version with a greater range than Iraq's Scuds, which have been sold to Iran and Syria. Now we worry that P'yongyang is not far from having a much larger missile for sale, one with a range of at least 1000 km. Centered in Western Iraq, a 1000 km circle would encompass not only all of Israel, but Cairo, most of Turkey, and much of Saudi

Arabia, as well. From North Korea, the missile could threaten Tokyo, Vladivostok, or Shanghai.

Recent events in North and South Korea will have bearing on our knowledge of the North Korean program. For instance, P'yongyang recently signed the IAEA safeguards agreement and representatives of the two Koreas have reached an historic agreement in principle for a nuclear-free peninsula. Each side has committed itself not to--quote--test, manufacture, produce, receive, possess, store, deploy, or use--end quote--nuclear weapons. Both sides also agreed not to have nuclear reprocessing or uranium enrichment facilities. Verification, to include on-site inspections, remains to be worked out. Unfortunately, there has been no progress on this issue in the bilateral meetings that have been held so far, and we will have to wait and see how the North interprets its responsibility to permit IAEA inspections.

China

North Korea's neighbor, China, also depends heavily on arms sales to fund its defense establishment. Beijing is developing two solid fuel SRBMs--the M-9 and M-11--that exceed the range and payload limits of the Missile Technology Control Regime (500 kilograms and 300 kilometers). It has offered to sell these missiles in the past, but Chinese leaders have indicated that their conditional commitment to abide by

Control Regime guidelines would apply to both missiles. We will just have to keep watching to see if they do.

--China and North Korea have already sold lethal equipment to countries in the Middle East, and they could sell longer-range missiles and the technology to produce them. In that event, countries with special weapons will further expand and accelerate the special weapons arms race presently underway.

China has signed the Nuclear Proliferation Treaty and its National People's Congress ratified the agreement. China is now obligated to require all recipients of their equipment to safeguard the nuclear equipment and material it sells. This development is important because China has long been a supplier of nuclear technologies in the Third World. While China has claimed that all such exports were for peaceful purposes, it has not always required recipients to adhere to safeguards.

What is the Intelligence Community Doing?

The Intelligence Community has been concerned about arms races and the proliferation of weapons of mass destruction for a long time. In 1958, for example, a National Intelligence Estimate was published on the arms race in the Middle East,

and by the early 1960's we had begun regularly to estimate the scope of the global proliferation problem.

But the intensity and, I believe, the quality, of the Community's effort have picked up considerably in recent years. Resources spent on tracking arms transfers and proliferation have grown substantially, and we have centralized and improved coordination among government components that work on the problem.

Just this month I further strengthened the CIA's Nonproliferation Center by putting in charge the Intelligence Community's most senior specialist on proliferation matters. This center has officers from several agencies who formulate and coordinate intelligence actions in support of our government's policy. This work will include coordination of the extensive and detailed information the Intelligence Community supplies to arms and export control negotiators and other technical experts in the government.

The Center also works closely with the State Department, which in turn has worked closely with the International Atomic Energy Agency and the U.N. Special Commission, in implementing resolution 687 on Iraq. And we have and will,

where appropriate, share intelligence with other countries working to stem the proliferation threat--including the governments of the new republics formed from the Soviet Union.

I should add, at this point, that I am under no illusions about the difficulty of the Center's work. Identifying new special weapons programs and measuring the progress of existing ones are extraordinarily difficult tasks.

Countries and people who deal in these technologies realize how difficult their activities are to detect and make every effort to cloak them. They trade in sensitive technologies through front companies or third countries and deal with innocuous-sounding consignees. Because most of these technologies have legitimate uses, exporters and authorities can claim they had no way of knowing a shipment was destined for a special weapons program.

In too many cases, however, suppliers know who they are dealing with. They may even have sought the business and collaborated with the buyer to evade export regulations.

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My hope is that the Nonproliferation Center will improve our ability to stitch together disparate pieces of evidence and expose such deceits. Then, the Administration, Congress, other governments, and international organizations can act.

International agreements and organizations like the Nuclear Proliferation Treaty, the Missile Technology Control Regime, the IAEA, and the Australia Group--a regime to control CW and BW technology--are all important tools in the struggle to control the spread of special weapons. Their efforts have brought good results since Operation Desert Storm and its revelations about Saddam's programs. And many countries have expanded export control laws, increased penalties for violators, and stepped up enforcement. The membership of the MTCR and the Australia Group has grown and specifications of equipment and materials of proliferation concern have been refined.

Still, there are limits to what we can expect multilateral control regimes to accomplish. Some countries will never find it in their interest to join. And membership is no guarantee of good behavior, because some countries only join to acquire trade, technology, and other benefits and have little intention of enforcing the regulations.

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In closing, I want to emphasize the positive: the level of attention to export controls among civilized countries has never been greater. But we have our work cut out for us, and often we will have to deliver unpleasant news which requires difficult decisions.

Now I would be happy to answer your questions.